THERM-OMEGA TECH INC

Delaware Valley Industrial Resource Center

Therm-Omega-Tech Heats Up Profits By Setting Prices

Client Profile:
Therm-Omega-Tech manufactures temperature activated valves for freeze protection, steam tracing, and energy conservation. It sells specifically to the railroad industry, original equipment manufacturers, and other industrial customers, and will engineer special designs to meet the needs of its customers as required. The company also supports its customers by consulting on any number of technical issues and applications for its stock and custom products. Located in Warminster, Pennsylvania, Therm-Omega-Tech employs less than 50 people.

Situation:
Therm-Omega-Tech has been questioning the costing information used in quoting orders. While defining the bill of materials was no problem and base labor rates were readily available, the application of overhead to the quote to provide the basis for mark-up was not accepted by all involved in the quoting process. The company had additional concerns about product line (industry segment) profitability among its three main customer categories. Company leadership suspected that one of the industry groups was not profitable.
Therm-Omega-Tech contacted the Delaware Valley Industrial Resource Center (DVIRC), a NIST MEP network affiliate, to analyze the cost structure of the company from a traditional perspective.

Solution:
DVIRC analyzed Therm-Omega-Tech's method of building departmental cost rates, applying overhead, and supporting an Excel-based quoting worksheet formula. DVIRC also examined the overhead from an activity-based costing perspective to apply cost drivers to activities and determine industry group profitability.
The results of each study were significant. In the traditional costing analysis to refine the quoting process, DVIRC calculated new departmental rates and tested them against recent quotes prepared the traditional way. While the rates developed by DVIRC appeared quite high, they actually yielded a net profit margin that was very acceptable to the company. The company now quotes with a much better understanding of the costs associated with making its products.
The results of the activity-based costing study were also very revealing. The analysis confirmed management's suspicion that one of the industry groups was unprofitable, while a second group was revealed to be only breaking even.

Therm-Omega-Tech's oldest product line had actually evolved into the most profitable aspect of the business, mostly because the application of overhead and management time had been focused on the other two industry segments without recognizing the supporting cost of these two areas.
Given this new information, the company recognized where it could quote more competitively and felt that additional sales in the range of $75,000 could be achieved by the new information they were using. As a result of the ABC analysis, management was preparing to discuss new approaches to the other two industry segments to add profitability in these areas also.

Results:
Anticipating a sales increase of $75,000.
Produced a better understanding of manufacturing costs.
Developed more competitive prices while increasing profitability.

Testimonial:

Eric S. Kaplan, Chief Financial Officer